

Date of Hearing: August 31, 2012

ASSEMBLY COMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

Norma Torres, Chair

AB 1551 (Torres) – As Amended: August 22, 2012

SUBJECT: Housing.

SUMMARY: Allows the California Housing Finance Agency (CalHFA) for the Home Purchase Assistance Program and the Extra Credit Teacher Home Purchase Program and the Department of Housing and Community Development (HCD) for the CalHome Program to subordinate a second mortgage to refinancing. Specifically, this bill:

- 1) Allows CalHFA for the Home Purchase Assistance Program and the Extra Credit Teacher Home Purchase Program and HCD for the CalHome Program to subordinate a second mortgage to refinancing if CalHFA or HCD determines that the borrower has demonstrated hardship, subordination is required to avoid foreclosure, and the new loan meets underwriting requirements.
- 2) Allows CalHFA and HCD to permit subordination on those terms and conditions as they determine are reasonable, but prohibits subordination if the borrower has sufficient equity to repay the loan.
- 3) Includes an urgency clause and declare that the urgency is necessary in order for underwater homeowners to participate in the federal Home Affordable Refinance Program (HARP) at the earliest possible time.

EXISTING LAW

- 1) Establishes the CalHome Program, administered by HCD, to enable low- and very low-income households to become or remain homeowners and requires HCD, under the program, to provide grant or loan funds to local public agencies or nonprofit corporations for specified purposes relating to the promotion of home ownership.
- 2) Requires that financial assistance provided to an individual household under CalHome be in the form of a deferred payment loan, repayable upon sale or transfer of the home, when the home ceases to be owner-occupied, or upon the loan maturity date.
- 3) Requires CalHFA to administer the Home Purchase Assistance Program for the purpose of assisting first-time homebuyers utilizing existing mortgage financing and to administer the Extra Credit Teacher Home Purchase Program and any other school personnel home ownership assistance program that is set forth by the California Debt Limit Allocation Committee.
- 4) Requires CalHFA to administer the California Homebuyer's Downpayment Assistance Program (CHDAP) for the purpose of assisting first-time low- and moderate-income homebuyers utilizing existing mortgage financing, and authorizes a borrower under the program to refinance a mortgage under specified circumstances.

- 5) Authorizes CalHFA, at its discretion, to permit the subordination of a CHDAP loan to refinancing if it determines that certain criteria have been met.
- 6) Authorizes CalHFA to permit subordination of a CHDAP loan under those terms and conditions as it determines are reasonable.

FISCAL EFFECT: According to the Senate Appropriations Committee, AB 1551 could cause delays in loan repayments in future years, the impacts of which would likely be offset by reduced risk that state-financed loans would be extinguished during a foreclosure. The bill would have minor administrative costs to CalHFA and HCD.

COMMENTS:

The California Housing Finance Agency (CalHFA) currently has authority to subordinate loans provided under its California Homebuyer Downpayment Assistance Program (CHDAP) to a refinancing of a homeowner's first mortgage [AB 224 (Correa), Chapter 172, Statutes of 2009]. However, two other CalHFA programs, the Home Purchase Assistance Program and the Extra Credit Teacher Program, continue to require the homeowner to pay off the CalHFA second mortgage before the first mortgage may be refinanced. The CalHOME program, administered by HCD, has a similar requirement. For those California homeowners currently underwater in their mortgages, this is not possible. Moreover, this requirement effectively prohibits underwater homeowners from participating in the federal Home Affordable Refinance Program. As a result, these homeowners cannot get the benefit of saving hundreds of dollars per month through refinancing and, in worst-case scenarios, may lose their homes to foreclosure.

AB 1551 allows HCD to subordinate its second mortgages under the CalHOME program and allows CalHFA to subordinate its second mortgages under the Home Purchase Assistance Program and the Extra Credit Teacher Program, as is already allowed under CHDAP. In order to qualify, the borrower must demonstrate hardship, subordination must be required to avoid foreclosure, and the new loan must meet underwriting requirements. The bill prohibits subordination if the borrower has sufficient equity to repay the second mortgage.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file

Opposition

None on file

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